

Business owner succession planning

Why consider an ESOP?

A common concern among business owners is when and how they can retire and transition their business to someone else. If you are like most business owners, it can be hard to find time to focus on some of these challenges:



Succession



Diversification



Retirement



Taxes

What is an ESOP?

An ESOP is a qualified retirement plan, similar to a 401(k) but with some special features that give owners flexibility and options in their succession planning, allowing them to achieve liquidity and leave a legacy.

How do ESOPs make life easier for business owners?

- Gives the owner flexibility so they can exit while remaining involved in the business on their own timeline, not that of a third-party buyer.
- It helps diversify their portfolio beyond the value of the business.
- And ESOPs can come with **significant tax savings**.

For example:

Tax advantages — meet ABC company

\$10 million loan, 10 years, 5%

(data is over life of loan)

	Sale to third party	Sale to ESOP
Deduction for principal paid	\$0	\$10M
Deduction for interest paid ¹	\$2.7M	\$2.7M
Total deduction	\$2.7M	\$12.7M
Total tax savings (40% combined federal and state tax rate)	\$1.1M	\$5.1M

Example is for illustrative purposes only.

¹ If the company is structured as a C Corporation, the selling owner can defer capital gains on the sale if the proceeds are reinvested in a qualified replacement. The loan repayments are deductible to the business as an ordinary business expense. Consult a tax professional as state and local tax may differ.

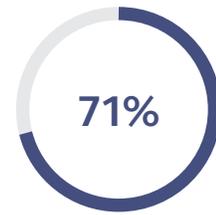
But an ESOP doesn't just help the owner, it can help the business, employees and the community by:

- Keeping the business intact and jobs in the community
- Increase employee morale and performance
- Help employees better prepare for retirement

Good fits for an ESOP come in all shapes and sizes. Nearly 7,000 firms in the U.S. have over 14 million employee owners today.² An ESOP can work for publicly or closely held corporations, whether they're Chapter C or S. It can be good for those with a history of profitability, solid cash flows and employee-centered culture.



positively affected by company culture¹



reported increased revenue¹



If you want to achieve liquidity and leave a legacy, with the flexibility to run and exit your business on your own terms, contact your financial professional to learn more!

¹ Source: 25th Annual Economic Performance Survey of ESOPs, The ESOP Association, Oct. 2016.

² <http://www.nceo.org/articles/esops-by-the-numbers>



principal.com

The subject matter in this communication is educational only and provided with the understanding that Principal® is not rendering legal, accounting, or tax advice. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax, or accounting obligations and requirements.

Insurance products and plan administrative services are provided by Principal Life Insurance Company, a member of the Principal Financial Group® Des Moines, IA 50392.

PQ11059-07 | © 2017 Principal Financial Services, Inc. | 08/2017 | t17081000tl